Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	**)**	
Request to Update Compensation Rate	**)**	**WC Docket No. 03-225**
for Dial-Around Calls from Payphones	**)**	**RM No. 10568**

WORLDCOM, INC.
REPLY COMMENTS

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I. EXECUTIVE SUMMARY

In this proceeding payphone service providers ("PSPs") have portrayed the substantial decline in payphone deployment since 1999 as a widespread threat to the public's ability to make transient calls, when in fact these declines are an appropriate response to competition. Only rarely is a person unable to make a desired transient call. Consequently, increasing the default dial-around compensation rate would be a wasteful method of ensuring the public has an adequate supply of payphones. Doing so, would provide additional revenues to already profitable payphones, and would do nothing to ensure that a location actually in need a payphone will obtain one. These locations must be identified, and the only way to accomplish this is through petitions, filed by consumers or PSPs, for state commissions to subsidize the placement of payphones at these identified locations. If the Commission is concerned that states do not have programs in place to allow the identification and subsidization of payphones at needed locations, it should:

– require states that do not have public interest payphone programs ("PIPs") to implement them,
– allow persons or PSPs to petition the Commission that existing PIPs are inadequate, and
– require states to better advertise the availability of its PIP.

The Commission would also ensure a sustainable level of payphone deployment if it were to adopt a caller-pays system. By making the calling party responsible for any call made from a payphone, caller-pays provides immediate market signals that allow consumers to determine whether to use a payphone to make a call, whether to wait, or whether to use a wireless service. These market signals will be directly conveyed to PSPs, and they will be able to choose the pricing structure for various payphone services (coin, 0+, dial-around) that maximizes revenue for each location. The Commission may adopt a caller-pays method of compensation since

Section 226(e) only bars it from *prescribing* a specific compensation level for calls routed to providers of operator services other than the presubscribed operator. Since a caller-pays plan would give PSPs full discretion to set market rates for various payphone services, the Commission would not be prescribing compensation levels whatsoever.

In the event the Commission forsakes strengthening PIPs or adopting caller-pays, it should find that Petitioners have overstated costs in a number of ways. First, PSPs have attempted to portray the updating of the dial-around compensation rate as a simple matter of plugging in new inputs into the model the Commission used to establish the existing rate. However, their proposals fail to justify the current level of payphone deployment as appropriate, leaving open the very real possibility that the proposed levels of payphone asset deployments would not be used or useful. Unusable asset deployments should be excluded from regulated cost recovery.

The RBOC Payphone Coalition ("RPC") fails to estimate the capital costs of acquiring and installing a payphone. APCC performs this task, but uses expensive, non-basic payphones, and fails to take the availability of much less expensive new and refurbished payphones, pedestals, and enclosures into account.

The Commission should not include a cost recovery element for bad debt, because in its Fifth Reconsideration Order it already determined that Section 276 does not permit one company to be responsible for another company's liability. Neither should it include a cost recovery element for collection costs. RPC's estimate should be rejected because it includes functions that are performed by interexchange carriers, but are not necessary functions for payphone service providers. APCC's element should be rejected because its survey did not direct its survey respondents to exclude such costs from sales, general, and administrative costs ("SG&A").

The Commission should also make adjustments to correct for the downward bias in call volume estimates provided at marginal locations. APCC measures volumes of calls at marginal payphones according to dial-around calls for which PSPs received compensation, and excludes completed calls for which they did not receive compensation. APCC and RPC both fail to exclude call volume data from locations that did not fully recover their costs, one of the conditions the Commission uses to define marginal payphones. Consequently, both studies include phones with sub-marginal volumes. The Commission should request RPC and APCC to resubmit their studies based on data derived from samples that do not contain the call volume errors identified here. In the alternative, the Commission should use average call volumes as a reasonable adjustment, or include coin revenues earned above $.35 per call to correct for the downward bias in marginal call volume estimates.

Finally, the Commission should reject PSP assertions they have a constitutional and statutory right to be made whole in the face of losses from competitive alternatives simply because the default dial-around compensation rate is a cost-based rate established by the Commission. Cost-based ratemaking merely allows a regulated firm the opportunity to recover its costs based on demand levels available at the time. If competitive alternatives develop in the interim, PSPs must adjust, either by becoming more efficient, or by removing payphones from locations with multiple payphones, so volumes per phone rise back to compensable levels.

WorldCom, Inc., d/b/a/ MCI hereby submits its Reply Comments in the above-captioned proceeding.

II. INCREASING DIAL-AROUND COMPENSATION RATES IS NOT AN APPROPRIATE POLICY RESPONSE TO THE COMPETITION PAYPHONE SERVICE PROVIDERS FACE FROM WIRELESS PROVIDERS

A. Increasing Dial-around Compensation Rates Will Not Stem The General Decline In Payphone Deployment Levels

There is no evidence that increasing the dial-around compensation rate will stem the overall decline in the supply of payphones. Global Crossing correctly states that increasing the price of dial-around calls will make payphone calling less attractive compared to wireless calling.[1] Similarly, AT&T presents data showing a significant decline in calling card calls made from payphones when ready substitutes are available.[2] MCI examined the relation between payphone rate increases and payphone deployment and showed not only that payphone deployment would decline by 3 percent if the dial-around compensation rate were increased to $.49 per call, but also that the removal of payphones increased at an increasing rate as the ratio of wireless to payphone rates declined.[3] MCI's estimate was quite conservative, for it assumed that the average price of making a wireless call would remain constant. If one were to take a linear projection of the historical decline of the price of wireless calling by one year, the average price of a wireless call would decline from $.11 in 2003 to $.04 in 2004.[4] Increasing the dial-

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[1] Global Crossing Comments at 7.

[2] AT&T Comments at 9. See also Sprint Comments at 7.

[3] MCI Comments at 10.

[4] Using least squares regression.

around compensation rate to $.49 under this scenario would reduce estimated payphones by 450,000, a 28 percent decline.[5]

American Public Communications Council ("APCC") also correctly, but inappositely, notes that wireless and payphone calling are not "perfect substitutes," and that an increase in payphone rates is not a primary reason why customers choose to obtain wireless service.[6] Nevertheless, APCC admits that an increase in payphone rates will cause wireless subscribers to reduce their use of payphones.[7] More importantly, all payphone service providers ("PSPs") cite the increasing prevalence of wireless subscribers as the primary factor responsible for the decline in payphones.[8] In the face of the significant projected decline in the average price of making a wireless call, all parties would have to agree that increasing the dial-around compensation rate will do little to nothing to stem the tide in the decline of payphone deployment.

The Commission should reject PSP representations that if it were to set the dial-around compensation rate too high, PSPs would simply negotiate lower rates with IXCs.[9] After bitterly complaining that collecting compensation from switch-based resellers is too difficult and time-consuming, PSPs now blithely maintain that thousands of PSPs will negotiate individual, profit-

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[5] The natural log of the ratio of wireless to payphone rates under these circumstances is –2.393, compared to –1.339 at for the ratio in 2003. See MCI's Comments, at 10, for the parameters to estimate this decline.

[6] APCC Comments at 13.

[7] APCC Comments, fn 8.

[8] APCC Comments, fn 5, RBOC Payphone Coalition ("RPC") Petition for Rulemaking, filed September 4, 2002, at 1; Florida Public Telecommunications Association ("FPTA") Comments at 2; Illinois Public Telecommunications Association ("IPTA") at 10

[9] APCC Comments at 11, RPC Comments at 8.

maximizing, rates with IXCs. Global Crossing correctly identifies the demand to increase dial-around compensation rates as a method of maximizing revenues on already profitable payphones, but not a method to stem the tide of declining payphone deployment.[10]

B. PSPs Fail To Provide Evidence That The Public Is Generally Unable To Make Transient Calls

IXCs argue that the widespread deployment of wireless subscribers has reduced the need for payphones as an instrument of making transient calls. They argue that Section 276 of the Communications Act requires the Commission to take into consideration the public need to use payphones as a means of making transient calls as part of its mandate to ensure the widespread deployment of payphones.[11] As the deployment of wireless subscribers has increased, so has the number of required payphones declined.

This is an argument IXCs have made since their initial comments to RPC and APCC's Petitions to implement this proceeding in 2002, yet PSPs have yet to address it. Moreover, PSPs fail to provide evidence that the public is generally unable to make transient phone calls. They allude to the need for some payphones, an argument with which no party disagrees, as justification for maintaining the current number of payphones.

APCC cites a report by the West Virginia Payphone Task Force ("Task Force") that states "removal of even a single payphone can have a dramatic impact on rural areas."[12] APCC fails to mention that the Task Force found that "the counties with the largest drop in the number

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[10] Global Crossing Comments at 8.

[11] WorldCom Comments at 6, AT&T Comments at 4; Sprint Comments at 5.

[12] APCC Comments at 6.

of payphones…are also the counties with the largest remaining number of payphones."[13] Significantly, the report also states that although West Virginia does not have a public interest payphone program ("PIP"), the West Virginia Public Service Commission has handled requests for needed payphones on a case-by-case basis. Finally the report concludes by recommending consideration of "a public interest payphone program as part of an overall state telecommunications universal service fund." Far from justifying a general rate increase, the West Virginia Task Force Report calls for a PIP as the appropriate mechanism to address the public interest in the face of declining payphone deployment.

The Florida Pay Telephone Association ("FPTA") similarly points to Bell South's impending exit from the payphone marketplace as an event that will deny the general public the ability to make needed payphone calls, but fails to mention that an independent payphone provider, CalTel, Inc., is prepared to purchase Bell South's payphones from location owners wishing to continue to make a payphone available.[14]

C. Dial-Around Rate Increases Are An Inefficient Method Of Addressing The Public Need For Non-Wireless Transient Calling Services

Increasing dial-around compensation rates is a wasteful method of addressing the public's need for non-wireless transient calling services. It provides additional revenues to profitable payphones, and does nothing to ensure that a location actually in need of a payphone will obtain one.[15] This is really the crux of the issue. There are undoubtedly locations where the public would benefit from the addition of a payphone. These locations most likely generate call

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[13] *See*, Payphone Task Force Sixth Interim Report, www.cad.state.wv.us/03pp%20Survey.htm.

[14] CalTel, Inc., BellSouth Payphones Replacements, http://www.caltelinc.com/pages/6/index.htm

[15] WorldCom Comments at 7, Sprint Comments at 5,

volumes even below the sub-marginal volumes proffered by APCC and RPC in their flawed cost studies. Increasing the dial-around compensation rate based on these studies will fail to bring a payphone to these needed locations. The locations themselves must be identified, and the only way to accomplish this is through petitions by citizens or PSPs to their state commissions.

D. Allowing PSPs To Remove Payphones And States To Adopt Public Interest Payphone Programs Is One Appropriate Method Of Ensuring Sustainable Payphone Deployment

MCI showed in its Comments that states have relied on a combination of market forces and PIPs as mechanisms to ensure the appropriate supply of payphones in their state.[16] The Commission too has held the view that market forces would supply an appropriate number of payphones to locations in response to the magnitude of demand at each location. At locations with high demand, payphone supply will increase, thereby reducing call volumes to levels sufficient to allow PSPs to earn only a normal return.[17] The converse would also be true. Where demand decreases, payphones would be removed until call volumes per phone increase to a level sufficient to earn a normal return.[18]

The Commission has also held that states may implement PIPs if they do not believe market forces will meet the public's need for payphones as they are removed from service due to

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[16] MCI Comments at 4.

[17] Third Report and Order, and Order on Reconsideration of the Second Report and Order ("Third Report & Order"), CC Docket No. 96-128, Released February 4, 1999 ("Third Report and Order"), &119 ("Payphone owners …are more likely to locate their payphones in areas where EBT calls are made….Payphones will thus be placed where the amount of traffic warrants the payphone's existence, which is one of the benefits of a deregulatory approach,

[18] Id., fn 282. ("We believe, however, that other factors, such as the decreasing prices for cellular and PCS service, may reduce the number of payphones.")

competition from wireless providers.[19] Since increasing numbers of payphones began to be removed from service in 1999, several states that did not already have PIPs, initiated actions to consider providing targeted subsidies to payphones at needed locations. In 2001, The New Hampshire Legislature passed a bill requiring the public utility commission to conduct a study determining the need for a PIP,[20] and in 2003 passed a law requiring the utility commission to establish a PIP.[21] That year, the West Virginia Payphone Task Force recommended that the West Virginia Public Service Commission examine the need for a PIP.[22] The Kentucky Public Service Commission recently opened a docket to examine whether "new regulations were needed to ensure continued provision of public payphone service in areas where such service was essential to the public interest but unprofitable."[23] The Public Service Commission of South Carolina has also just opened a docket to examine whether there is a need for a PIP, and if so what locations would qualify for targeted subsidies.[24] On the other, the Tennessee Regulatory Authority has not received any complaints that persons were being denied the ability to make

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[19] Id., fn 282.(" That does not mean that state commissions should not take action regarding payphones if they believe market forces are causing the removal of payphones in locations where they continue to be needed.")

[20] Communications Daily, July 6, 2001.

[21] Id., December 30, 2003.

[22] Supra, fn 14.

[23] Id., January 8, 2004.

[24] Public Service Commission of South Carolina, Proceeding To Address Public Interest Payphones, Docket No. 2003-358-C (rel. January 12, 2004).

payphone calls, even though Bell South has been removing payphones, because “the demand for payphones has decreased so dramatically.”[25]

The record demonstrates that states are fully aware of the decline in payphone deployment and fully aware they have the capability of responding to this decline. Some have PIPs in place. Others are implementing them for the first time. And others continue to believe that removing payphones is the proper response to the declining demand for payphones in light of the increasing use of wireless services. There is no record evidence that the Commission must increase the dial-around compensation rate to ensure the public is able to make transient calls. And in fact, the appropriate response is to retain the existing dial-around compensation rate and allow payphones to be removed. In locations with multiple payphones, call volumes for remaining phone(s) will increase. In other locations there may be a need for a targeted subsidy. The Commission should make clear that it will entertain petitions filed by any party, including PSPs, for a state to establish a PIP if it does not have one, or to improve its PIP if the Petitioner believes it is deficient.

E. Caller-Pays Is Another Appropriate Method Of Ensuring Sustainable Payphone Deployment

Sprint advocates the Commission adopt a caller pays compensation system as a rational means of establishing a realistic, sustainable deployment based on market signals and efficient pricing.[26] MCI has also supported a caller-pays approach.[27] As Sprint points out, there are many

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[25] Communications Daily March 17, 2003.

[26] Sprint Comments at 21.

[27] MCI Comments, The Pay Telephone Reclassification and Compensation Provisions of

advantages to a caller-pays approach. By making the calling party responsible for any call made from a payphone, caller-pays provides immediate market signals that allow consumers to determine whether to use a payphone to make a call, whether to wait, or whether to use a wireless service. These market signals will be directly conveyed to PSPs, and, in turn, they will be able to choose the pricing structure for various payphone services (coin, 0+, dial-around) that maximizes revenue for each payphone location. In addition, as Sprint points out, a caller pays system will eliminate the administrative costs of tracking, reporting, making payments, and eliminate disputes and litigation.[28]

PSPs maintain the Commission may not adopt a caller-pays system because Section 226(e) prohibits it from permitting advance payments to be made for dial-around calls.[29] But, as Sprint points out, Section 226(e) does not bar a caller-pays plan. It only bars the Commission from *prescribing* a specific compensation level for advance payments. Since a caller-pays plan would give PSPs discretion to set market rates for various payphone services, there is no prescription involved by the Commission whatsoever.

APCC also argues that if the Commission adopted caller-pays, it would deny consumers the option of making a coinless call. APCC maintains this would further suppress demand for payphone service. However, PSPs are earning additional revenue by providing new coin services that compete with dial-around services. One company, "Talk Too Me," develops signs that direct collect, calling card, and credit card calls to a presubscribed operator services

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The Telecommunications Act of 1996, CC Docket No. 96-128, RBOC/GTE/SNET Payphone Coalition, Petition for Clarification, NSD File No. L-99-34, filed June 24, 2003, at 30.

[28] Sprint Comments at 21.

[29] APCC Comments, fn. 9; RPC Comments at 9.

provider, whereby the PSP may earn "commission offerings as high as 55% and the option for PSPs to charge an additional PIF."[30] PSPs are also beginning to provide limited-time, local and long distance coin calling for a flat fee that competes with IXC dial-around products. For example, "for $1 in coins, users can dial direct to any country in the world…."[31] These new PSP services are premised on consumer's willingness to make coin calls as a substitute for dial-around services. Consequently, consumers should be equally willing to use coins for the default compensation portion of a dial-around call.

IV. PSP RATE INCREASE CALCULATIONS ARE FLAWED

A. Cost Regulation Does Not Guarantee Recovery

PSPs assert they have a constitutional and statutory right to made whole in the face of losses from competitive alternatives. IPTA asserts that "[a]ny failure to achieve this level of actual recovery …would…violate the statutory directive for fair compensation…"[32] APCC asserts that to "survive Constitutional scrutiny, rates prescribed for carriers by the FCC must enable a company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risk assumed."[33] The Commission did just this in its 1999 cost-of-service proceeding. It presumed that existing asset levels (*viz*. deployment of payphones)

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[30] See "More $$$ For Payphone Owners," http://www.thedigest.com/more/141/141-057.html. See also, Intera Dial-around Solution, http://www.smartpartner.com/nws.html.

[31] Miami-based Phone1 Signs Agreement With Sprint, Miami Herald, February 2, 2002. See also, Verizon Trials Lower-Priced Payphone Calls, http://www.phoneplusmag.com/hotnews/21h30144412.html, ("Verizon said that as part of its competitive market response to the wireless challenge, it would also try various pricing experiments, including 10-cents-a-minute calling.")

[32] IPTA at 5.

[33] APCC Comments at 12.

were used and useful. It determined total revenue requirements, and then it set rates based on existing demand levels.

However, cost-based rate-setting does not guarantee that estimated revenue requirements will be realized. It merely allows a regulated firm the opportunity to recover its costs based on the evidence available at the time. If demand exceeds the level on which rates were set, or if the firm becomes more efficient, investors will earn above the allowed rate of return. The converse will be true if competitive alternatives develop.   In response, PSPs must adjust, either by becoming more efficient, or by removing payphones from locations with multiple payphones, so volumes per phone rise back to compensable levels.

B. The Commission Must Estimate The Required Level of Payphone Deployment

Similarly, when a utility commission calculates capital costs to be included in the regulated rate base it typically examines whether the level of assets put forward for inclusion by the firm are needed for expected levels of demand.   Capital assets must be used and useful in order to be included in rate base. PSPs completely ignore this standard ratemaking principal when they ask the Commission to set rates that will recover the costs needed to reproduce the existing number of payphones currently deployed. They completely fail to consider whether this level of assets would be used and useful, i.e. whether this level of payphone deployment is required given existing (and expected levels of demand). The Commission cannot possibly find that the existing number of payphones are would be fully used and useful. RPC has submitted data showing even fewer payphones are required now than was the case one year ago.[34] If the

[34] RPC Comments at 2.

Commission were to set rates in order to reproduce existing payphone levels, it would be failing its obligation to provide fair compensation as required by Section 276.

C. PSP Models Wrongly Calculate Rates Based On Sub-Marginal Phones

The Commission defined a marginal payphone as one that allowed its owner to recoup costs and normal profit, but not earn sufficient revenue to make payments to a location owner.[35] IXC Comments show that PSP models do not apply the definition of marginal phone employed by the Commission. Both APCC and RPC make no effort to ensure that phones included in their calculations are profitable in addition to being unable to afford site commissions.[36] Consequently, these models include sub-marginal phones, understate the volume of calls at marginal locations, and therefore overstate required per-call compensation. Neither APCC nor RPC make any efforts to correct this error, even though it has been a year since the problem was first identified. For this reason, the Commission must reject the models proffered by APCC and RPC and the rates derived from those models.

The Commission should either require APCC and RPC to resubmit new studies, based on an appropriate identification of marginal payphones, or make an appropriate correction. MCI has proposed two possible corrections: 1) use average rather than marginal payphone volumes;[37] 2) include coin revenues earned above $.35 since 1999.[38] The Commission's initial estimate of marginal call volumes was actually based on estimates of revenues required for the site owner

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[35] Third Report and Order, & 139.

[36] AT&T Comments at 15, WorldCom Comments at 28, Sprint.Comments at 13.

[37] WorldCom Comments at 18.

[38] Id., at 19

not to be required to pay a commission to the PSP, and revenues required for the PSP to be profitable but not so profitable as to be able to pay site commissions.[39] Those revenue estimates were based on coin revenues of $.35 per call. Since then, the coin rate has increased to $.50 per call. By taking this revenue into account, the Commission would partially correct for the failure of the existing studies to ensure that marginal locations are profitable.

D. Coin Rates Above The Default Dial-Around Rate Do Not Signify An Inappropriate Allocation of Costs To Coin Calling

APCC and RPC maintain that a coin rate greater than the dial-around rate indicates an over-allocation of costs to coin calling.[40] However, when the Commission established $.24 as the default dial-around rate, coin rates were $.35. This was so because the coin rate is deregulated, and PSPs found they were able to charge $.35 for a coin call. Maintaining the same percent difference between the existing coin rate and a default compensation rate that existed when the Commission established $.24 as the default dial-around compensation rate would yield a new default rate of $.36 per call. There is no necessary relation between coin rates and dial-around rates. The Commission established that allocating $.24 cents per coin, 0+, and dial-around call would recover payphone costs in 1999. APCC and RPC are able to maintain that there is an over-allocation of costs to coin calling only on the basis of their faulty cost models.[41]

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[39] Third Report and Order, & 147.

[40] APCC at 9; RPC at 9.

[41] APCC at fn. 7, also maintains that, if anything, dial-around calling should receive a greater allocation of costs than coin calling because dial-around calling is less elastic than coin calling, but fails to provide any evidence supporting its claim. One possible reason for this claim is that subscriber 800 calls are not paid for by the calling party. However, subscriber 800 calls make up a minority of MCI's dial-around calls. Moreover, subscriber 800 calls are likely to be the most

E. APCC and RPC Overstate Payphone Capital Costs

APCC and RPC both overstate payphone capital costs. The Commission used a basic coinless payphone when estimating the capital cost of a payphone unit in 1999.[42] RPC adheres to the Commission's methodology in this case and finds a basic payphone unit costs approximately $250. APCC uses more advanced phones, a practice not in keeping with the Commission's methodology, and on that basis concludes that a payphone costs $554.07.[43] MCI's Comments first showed that the cost of supplying a marginal location should be limited to the cost of installing already warehoused payphones, that in current market conditions the marginal capital cost of a payphone unit itself is zero.[44] MCI also showed that a new coinless phone can be obtained for $150.[45] Finally, MCI showed that by purchasing on the open market, it is possible to obtain more advanced new or nearly new payphone units, at an average price of $222.50.[46] APCC therefore vastly overstates payphone unit costs. APCC maintains that second-hand phones prices are either already included in the price of its phones or would result in poor quality service. Neither claim is true. First, APCC's payphone unit cost estimate is excessive because it was based on non-basic payphones. Second, MCI's based its estimate of the cost of

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discretionary type of dial-around calls and therefore the most elastic. One might also argue that coin calls, being mostly local in nature, are the least discretionary, and therefore least elastic, type of call.

[42] Third Report and Order, & 169.

[43] APCC Request For Rulemaking, filed August 29, 2002, Appendix D.5.4.

[44] MCI Comments at 12.

[45] MCI Comments, Attachment 1.

[46] Id., Attachment 1.

non-basic phones on new or nearly new, phones, so service quality would not decline if the Commission were to use MCI's cost estimate.

APCC's study does correctly show that most payphones installations don't require pedestals, many are installed without enclosures, and most do not require either phone books, signs or back plates.[47] Had RPC taken these factors into account its other capital expenditures (which it completely fails to identify) would have been at least 24 percent lower.[48] MCI also showed that APCC's pedestal, enclosure, and installation costs are significantly overstated.[49] AT&T confirms that both APCC and RPC have vastly overstated capital costs.[50]

F. Bad Debt and Collection Costs Should Remain Excluded

APCC and RPC argue for the inclusion of bad debt and collection costs as additional recoverable expenses.[51] The Commission should reject these requests. RPC argues that it only includes bad debt that has been written off. The Commission should not include this element, because in its Fifth Reconsideration Order it has already determined that Section 276 does not permit one company to bear another company's liability.[52] Including an element for bad debt would unfairly shift the burden of non-paying local exchange carriers and interexchange carriers

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[47] APCC Comments, Attachment D.5.4.

[48] APCC Comments, Attachment D.5.4. (895.29 ÷ 1186.67) -1

[49] MCI Comments at 14.

[50] AT&T Comments, Declaration of Hans Heymann at 8

[51] APCC Comments at 21-24, RPC Comments at 11-12.

[52] Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-28, Fifth Order on Reconsideration and Order on Remand, & 82 (rel. October 23, 2002)("Fifth Reconsideration Order").

onto those that do pay. APCC embeds its bad debt estimate into its call volume estimates. This is completely improper, for nothing precludes PSPs from pursuing these payments. The result would be double recovery. The Commission must reject APCC's bad debt methodology.

The Commission should not include an element for collection costs either. RPC's estimate should be rejected because it includes the costs of validating calling cards, collect calls, and billed-to-third party calls in addition to identifying the IXC responsible for dial-around compensation. IXCs would have a need to validate calling cards, and operator services providers would have a need to validate collect calls and third-party-billed calls, but these are not necessary functions for PSPs. Consequently, they should not be included for cost recovery. APCC has a different conception of collection costs. It measures collection costs as the revenues PSPs pay to aggregators to bill IXCs on their behalf. However, APCC's survey did not direct respondents to exclude such costs from sales, general, and administrative costs ("SG&A"). The Commission therefore should not include APCC's collection element in order to avoid double counting.

V. CONCLUSION

MCI urges the Commission to adopt the positions advocated herein.

Sincerely,

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STATEMENT OF VERIFICATION

I have read the foregoing and, to the best of my knowledge, information and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct.

Executed on January 22, 2004

Larry Fenster

Larry Fenster

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CERTIFICATE OF SERVICE

I, L. Elizabeth Bryant, hereby certify that on this 22nd day of January, 2004 copies of the foregoing were served by regular mail or email on the following:

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